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SUGGESTIONS FOR IMPROVING AGRICULTURAL CREDIT IN PAKISTAN

By

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Preface

This report summarizes my observations on agricultural credit in Pakistan and presents my suggestions for improvement in credit facilities for farmers for the consideration of the Food and Agriculture Commission. My report is based on studies made during the period of approximately two months spent in Pakistan as an Advisor to the Commission. During my visit I have had the opportunity of conferring with officials of various institutions concerned with the financing of farmers in both West Pakistan and East Pakistan and have visited a few cooperative societies and other agencies in the field.

While the time spent in Pakistan has not been sufficient for a detailed study of the complex problem of agricultural credit in this country, I did have the advantage of having available the report of the Credit Enquiry Commission which had been published prior to my arrival in the country. This report presents a great deal of information on credit available to agriculture, business, and industry, which has been very helpful to me. A few of the recommendations made by the Credit Enquiry Commission for the improvement of agricultural credit are contained in my report and a few are challenged. Also in my report I have tried to make additional suggestions for developing credit programs which will meet the needs of farmers, particularly of the small farmers with limited resources who constitute the large majority of farmers in Pakistan.

My report contains much descriptive material which may be of no particular value to persons familiar with agricultural credit activities in Pakistan. This material was included to provide a background for the suggestions made and also to give those persons reading the report who are not acquainted with the agriculture of Pakistan, background information they may find useful.

I wish to express my appreciation of the cooperation and assistance given me by members of the Food and Agriculture Commission, officials of the Government, officers of cooperative banks and cooperative societies, and other agencies, and members of the staff of the United States Operations Mission to Pakistan. Their assistance has been very helpful.

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SUGGESTIONS FOR IMPROVING AGRICULTURAL CREDIT IN PAKISTAN

The Agriculture of Pakistan

Agriculture is the primary industry of Pakistan. Of its population of about 87 million people it is estimated that 85 percent are engaged in farming or activities directly related to farming. Agriculture accounts for about 60 percent of the total income of the country. The land area is 234 million acres, of which around 60 million acres are cultivated lands.

The country consists of two provinces, East Pakistan and West Pakistan. East Pakistan has only 15 percent of the land area but over one half of the population. Nearly one half of the cultivated area of the country is in East Pakistan where the climate is tropical and rice the principal crop. Rice occupies about 20 million acres in East Pakistan and jute an important fibre crop, $1\frac{1}{2}$ million acres. In contrast West Pakistan which includes about 85 percent of the total land area, has an arid climate with much of the land in desert, and farming generally is under irrigation. Wheat which is grown on about 11 million acres and cotton grown on $3\frac{1}{2}$ million acres are raised almost exclusively in West Pakistan.

Other important crops in Pakistan are peas, sorghum, sugarcane, corn, barley and tobacco. Production of livestock and livestock products are important in some areas. About 90 percent of all exports are agricultural products with cotton and jute the main exports. Other important export products include tea, wool and hides.

Pakistan is not self-sufficient in food and imports wheat and rice but a program is underway intended to make the country self-sufficient in food. This will require increased yields per acre since yields now are generally low. Also new lands must be brought under cultivation by irrigation and drainage.

The economic development of Pakistan is dependent in a large measure on improvement of the agriculture. Low incomes and poverty prevail in most rural areas. The country will develop and progress as it increases the productivity of its rural people. Increasing production on farms will give rural people the purchasing power necessary to provide markets for industrial products. In the improvement of agriculture, credit on reasonable terms and accompanied by technical assistance for farmers is required and can make a major contribution to the economic development of the country.

Need for Agricultural Credit

A broad program for providing credit for farmers is essential in the improvement and development of agriculture in Pakistan. Short term credit up to $1\frac{1}{2}$ years is needed to finance seasonal production of crops

including expenditures for seeds fertilizer, spray materials etc. Medium term credit, $1\frac{1}{2}$ to five years, is needed for purchase and improvement of livestock, purchase of farm machinery and equipment, construction and repair of farm buildings, and improvements to irrigation and drainage systems. Long term credit, over five years, is required for the purchase and improvement of farm real estate, sinking of tube wells etc.

In a country of limited capital such as Pakistan the emphasis on credit to farmers should be on providing short term and medium term loans. It will be unwise to tie up a substantial part of current capital funds in long term loans secured by farm real estate. Purchase of real estate where possible should be made on a contract basis with the seller receiving payment over a period of years from proceeds of crops produced. In short term and medium term loans there is a turnover of capital in a comparatively short period and also this capital ordinarily will be used in the practices which are of highest productivity and which will result in increased crop and livestock production.

Developing credit for farmers of Pakistan presents varied and complex problems. Most of the farmers are small cultivators of very limited resources who have very little to offer as security for loans. At the same time these small farmers can increase production if they can obtain supplies such as fertilizer and improved seeds. Therefore, small loans which enable them to obtain these items will be very helpful and while such loans are costly to handle and involve high risks some means of getting credit to these farmers should be found. Since most of the farmers are illiterate and have been exploited by traders and others, the loans will require careful supervision and much educational work will be needed to emphasize the importance of meeting financial obligations. Also it may be necessary to advance many of these loans in kind and collect them in kind. For example, a farmer might be advanced a certain amount of fertilizer under an agreement to pay for it at harvest time by the delivery of an agreed upon amount of rice, wheat or some other crop. In many areas the economy is primarily on a barter basis and advances and payments in kind may be necessary.

From the standpoint of the use of credit in farming, farmers can be divided into three main groups. In the first group are the large farmers who own their farms and operate on a relatively large scale with acreages usually up to about 500 acres. With their resources they may be able to operate and improve their farms without credit. For such credit as they may need they would prefer to turn to a Central Agricultural Bank. They represent risks which could be handled to advantage by commercial banks but these banks are not presently interested in making loans to farmers.

The second group is a large group consisting of farmers who have small or medium size farming operations with the operator owning the land. These farms ordinarily will range in size from about 3 to 25 acres. This is the group which could be served not only by cooperative societies but also by a Central Agricultural Bank.

The third group of farmers are the small farmers who own no farm land and operate farms as tenants under a lease or as sharecroppers. These farmers have very meager resources and low incomes and ordinarily do not have a basis for credit from the regular agricultural credit institutions. However, they can profit by small loans for fertilizer and seeds as well as for others purposes, but because of the high risk and high costs of making the small loans special government programs are required to meet their needs.

Credit for farmers should be for productive purposes. That is, loans should enable the farmer to obtain the supplies, equipment and livestock necessary for increasing production and thereby raise the level of living of his family. If the funds are used productively the loan will create the income necessary for its repayment and the farmers economic position would be improved. This means that loans would not be made for consumption including social functions and other domestic purposes. The latter would not increase production and consequently would create a burden of debt which the farmer will find hard to carry.

It must be understood that credit alone will not improve the economic position of farmers. A loan gives a farmer purchasing power which he would not otherwise have, but unless this purchasing power can be used to obtain the items necessary for improving the efficiency of the farming enterprise, the loan will have no beneficial effect. The improved seeds fertilizer, equipments, spray materials, livestock and other items necessary for improving agricultural production must be made available. Credit gives the farmer the opportunity to purchase these items where otherwise he would be unable to obtain them and consequently would find it difficult to improve his farming operations.

Present Sources of Agricultural Credit

In Pakistan there are several million small farmers. They operate very small plots of land. Most of these farmers are illiterate and have little knowledge of business and credit. Also they have very little collateral for loans. Under these conditions it would be expected that such credit as is available to the rural people is provided by individuals and not by institutions. Actually, this is the case in Pakistan.

There are no general studies to show the sources of credit for farmers and the amount of loans extended. However a few studies have been made in selected villages in both East and West Pakistan and these indicate that for the country as a whole perhaps about 60 percent of

the credit used in the villages is provided by relatives and friends, around 10 percent by individuals classified as well to do rural people and landlords and 10 percent by shopkeepers and money lenders. In other words, it seems that about 80 percent of the credit used by farmers is obtained from individuals. The remaining 20 percent is provided mainly by cooperative societies and the government or government sponsored institutions.

Over the years in the subcontinent of Asia a source of credit for rural people evolved in the form of the village "bania". He was a money lender and trader who usually operated on his own funds and became the most important source of credit for farmers. He loaned money on personal surety at very high rates of interest and also purchased the crops of farmers usually at comparatively low prices. While the influence of the village bania was not favorable to the development and improvement of the agricultural economy, he did provide a source for small loans.

With partition of the subcontinent the position of the money lender collapsed. In West Pakistan where most of the money lenders were Hindus, they migrated in a short time. In East Pakistan the migration was slower but the net effect has been that the money lender as he had operated over a long period, to a large extent now disappeared from the scene. With this migration the small farmer lost his source of credit which meanwhile has been replaced only in part by other individuals.

For the small farmer the migration of the bania had a wholesome effect since he was freed of the heavy debts which had accumulated over the years. While no general studies are available on the extent of debts it is apparent that a fairly large proportion of farm families in Pakistan are free from debts and that many of those having debts do not have debts of an amount to constitute an unduly heavy burden. Without improvement in the credit facilities for farmers, however, a situation could again develop where the farmers would find themselves involved in a heavy burden of debt which they would find difficult to carry. In the discussion which follows some recommendations are made in regard to steps which might be taken to improve agricultural credit facilities in Pakistan.

Agricultural Credit Institutions Sponsored by the Central Government

Recognizing the need for improved facilities for credit to agriculture, the Central Government sponsored two specialized credit institutions to aid farmers in the rural areas. The Agricultural Development Finance Corporation was established by an Act in 1952 and began operations in March 1953. The Agricultural Bank of Pakistan was established under the Agricultural Bank Act of 1957 and began loan operations in January 1959. Following the establishment of the Agricultural Bank, a territorial division of the country was made and the two institutions operate only in the territory specifically allotted to each institution, with no overlapping of territory. Each institution has provincial

administrative offices at Lahore in West Pakistan and in Dacca in East Pakistan and operates through several branch offices.

Agricultural Development Finance Corporation

This Corporation finances agricultural development including the financing of livestock, crop production, fisheries and forestry. Loans are made to finance general farm operations, installation of tube-wells, improvement of irrigation systems, and purchase of livestock and equipment. It operates through ten branch offices in West Pakistan and nine branch offices in East Pakistan. The following is a summary of applications received and loans closed up to December 25, 1959.

| | <u>Application Received</u> | | <u>Amount Sanctioned</u> | <u>Amount of loans</u> |
|---------------|-----------------------------|----------------|--------------------------|------------------------|
| | <u>Number</u> | <u>Amount</u> | | <u>disbursed</u> |
| West Pakistan | 7703 | Rs.104,157,833 | Rs.26,346,140 | Rs.17,230,728 |
| East Pakistan | 51188 | Rs.164,138,049 | Rs.28,190,499 | Rs.16,576,288 |
| Total. | 58891 | Rs.268,295,882 | Rs.54,536,639 | Rs.33,807,016 |

The Agricultural Development Finance Corporation has authorized capital of Rs.50,000,000 (about \$10.5 million) wholly subscribed and paid for by the Central Government. This capital has been paid in installments as the funds were required. The Corporation can accept deposits and may issue and sell bonds and debentures. No interest is paid on share capital subscribed by the government.

The Corporation may make loans to individuals, corporations or cooperative societies for agricultural purposes including marketing of agricultural products. The rate of interest on all loans at present is 5 percent. The maximum loan to individuals is Rs.100,000 and corporate bodies Rs.500,000 but with the approval of the government larger loans may be made. Loans may be made for periods up to 20 years and must be secured by a real estate mortgage or pledge of other property except that in the case of loans up to Rs.500 the endorsement (surety) of one individual will meet security requirements.

The Corporation has made loans for a large variety of agricultural improvements and operations, with the most important single purpose, the purchase of bullocks. Next in order comes tube wells, followed by loans for purchase of tractors and equipment. Many loans have been for seasonal purposes, mainly for the purchase of fertilizer and seeds and the payment of wages of hired labor. Roughly about one half of the loans have been medium term, about thirty percent long term and twenty percent short term seasonal loans.

The Agricultural Bank of Pakistan

This bank has about the same authority in lending as the Agricultural Development Finance Corporation but it is required to give

preference to loans to small farmers including sharecroppers. The following is a summary of application received and loans paid out from the beginning of operations through January 29, 1960.

| | <u>Applications Received</u> | | <u>Loans sanctioned</u> | | <u>Amount of loans disbursed</u> |
|---------------|------------------------------|---------------|-------------------------|---------------|----------------------------------|
| | <u>Number</u> | <u>Amount</u> | <u>Number</u> | <u>Amount</u> | |
| West Pakistan | 4177 | Rs.13,968,452 | 1643 | Rs. 3,254,750 | Rs.2,263,092 |
| East Pakistan | 38232 | Rs.17,465,786 | 21403 | Rs. 7,627,629 | Rs.6,794,041 |
| Total | 42409 | Rs.31,434,238 | 23046 | Rs.10,882,379 | Rs.9,057,133 |

In West Pakistan loans have averaged about Rs.2,500/- and the most important purpose of loans has been the purchase of livestock and implements with development loans, including tube wells, the second ranking purpose. Seasonal loans, are the number one purpose in East Pakistan and livestock and implement loans second in importance. Loans in East Pakistan have averaged about Rs.350/-. Loans generally are secured by a mortgage on real estate.

The authorized capital stock of Agricultural Bank is Rs.200,000,000. The amount of stock issued is Rs.35,000,000 of which Rs.30,000,000 has been subscribed and paid up, Rs.20,000,000 by the Central Government, Rs.5,000,000 by the Provincial Government of West Pakistan and Rs.5,000,000 by the Provincial Government of East Pakistan. The Bank also is authorized to borrow funds, accept deposits and issue and sell bonds and debentures.

Results

The Agricultural Development Finance Corporation and the Agricultural Bank have been criticized for their failure to finance as a large number of farmers as was expected and because they have restricted loans to those farmers who owned land and who were in fairly strong financial position. While it is true that the number of farmers given loans is comparatively small it must be recognized that these institutions, particularly the Corporation, had to take the time necessary to develop rules and procedures in a field where there was very little experience. Also trained people were not available for the work of analyzing and handling of loans to farmers and it has been necessary to train men for particular jobs involving office work and field work. Furthermore the security requirements for loans established under the law were difficult to fulfill. Since generally crops could not be mortgaged it was necessary to rely primarily on a real estate mortgage. Here difficulties were encountered in establishing the title to land and securing evidence that the land was not incumbered. Also delays in recording of mortgages were experienced which slowed loan closing.

During the past year considerable progress was made by both institutions in reaching farmers needing credit and in speeding up the closing of loans. Many inspectors have been trained and located where they can contact people in the villages and take applications for loans and make necessary inspections of the applicant and his farm. Mortgages on farm real estate have been recorded for a period of 12 years thus making it unnecessary to record a mortgage each year for seasonal loans. Loans under Rs.500/- can be made on personal surety which has enabled some farmers to obtain loans who were not in a position to give a mortgage on land. However tenant farmers have not as a rule been able to obtain credit except in a few cases where the landlord would stand surety for the loan. In general it can be said that both institutions are now in a position to give improved service and can reach more farmers needing loans for farm development and farm operations.

Recommendations

1. The Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan should be merged into one institution for financing agriculture. The Credit Enquiry Commission in its report recommended a merger but suggested a transition period which would delay the merger for at least two years. Meanwhile it has been decided that the merger should be made and it would seem desirable to effect the merger at the earliest possible time. The two institutions operate in different territory and are performing almost identical services and a long delay in merging would seem unnecessary. The main problem is to develop a uniform system of rules on accounting and loan procedure, and the legal basis for establishing the new institution, and this should be possible in a matter of a few months.
2. The new agricultural credit institution should be named the Agricultural Bank of Pakistan and should have essentially the authorities of the present agricultural bank. The simplest procedure in establishing the new institution is to merge the Agricultural Development Finance Corporation into the Agricultural Bank of Pakistan and have the Agricultural Bank Act of 1957 with certain changes, become the basic law for a Central Government agricultural credit institution. In fact it would seem that this act has the necessary provisions for the Government to effect the merger since in Chapter IV section 19 paragraph 11 the Agricultural Bank is given the authority of "taking over of the business including the capital, assets and liabilities of any other bank or financial corporation with the previous approval of the Central Government".

The following changes in the Agricultural Bank Act of 1957 in regard to the authority of the Bank are recommended and should be made at the time of the proposed merger.

- (a) Chapter IV Section 19 Paragraph 4, deals with security of loans and contains the provision "Provided that where a loan not exceeding five hundred rupees in aggregate is made to an individual agriculturalist, it may be secured by a bond with one or more sureties." This amount should be changed to one thousand rupees since five hundred is insufficient for many loans. For example the purchase of a pair of bullocks will require a loan of one thousand rupees and this is a common purpose for loans to farmers.
- (b) Chapter IV Section 19, Paragraph 5 gives the Bank authority for "the buying and supplying on credit of seeds, agricultural implements and other equipment, fertilizers and other chemicals and materials used in agriculture, and the acting as agent for any organization for sale of such goods". This should be deleted from the Act.

It will be unwise for the Agricultural Bank to engage in the buying and handling of supplies. This would involve the use of storage facilities and present special problems for the management as well as subject the Bank to possible heavy losses. The farmers cooperative societies and the Provincial Departments of Agriculture are in a position to handle supplies and it is not necessary to combine credit and supply functions in the agricultural Bank.

- (c) It will be desirable to give the Agricultural Bank authority to make loans to workers in cottage industries in rural areas. Therefore in Chapter I Section 2, Paragraph b. the term agriculturalist should be redefined to include these workers. Many farm families may also engage in handicrafts and other cottage industries. Often they need credit for purchase of supplies, and at present may have no access to credit. The Agricultural Bank can be of service to these people and assist in raising their incomes and standards of living.

3. A policy should be established of paying no dividends on stock during the early years of operation in order to enable the bank to build adequate reserves. In effect this means that the Central and Provincial Governments would subsidize the Bank to the extent of making free capital available. While cooperative societies are authorized to purchase shares of stock of the Bank, they should not be required to purchase stock and are not likely to want to do so voluntarily. The Agricultural Bank therefore will operate as a

government bank with most of the stock held by the Central Government and the remainder by the Provincial Governments. Following the merger, on the basis of present holdings of stock, the Agricultural Bank would have a paid up capital of Rs.70 million with each Provincial Government holding shares of Rs.5 million and the Central Government Rs.60 million. Means should be found for subscription and payment of additional capital as the demand for loans grows. The Bank should encourage deposits by the public and should pay a rate on savings deposits which will attract savings of farmers and others. Another source of loan funds will be borrowing from the State Bank of Pakistan.

4. The Agricultural Bank should operate on a basis which will enable it to meet operating costs and costs of money, out of interest earnings on loans. This will require efficiency in operation and interest rates at levels which will give satisfactory earnings. Rates must be raised above the present comparatively low rate of 5 percent. Many loans will be for a few hundred rupees to small farmers and these loans can be serviced only at a relatively high cost per rupee of loan. The larger loans will be more profitable to the bank and to some extent the earnings on these larger loans will enable the bank to meet expenses of the small loans. Careful study will be necessary to determine the rate to be charged on loans. A rate of 8 percent on short term loans, 7 percent on medium term and 6 percent on long term would seem to be a favorable rate for farmers and with the Bank having a large amount of free capital it should be able to operate and build financial reserves while charging these rates. Long term loans are here defined as loans of 5 years and over, short terms 18 months or less and those between these periods are the medium term loans.

5. A special effort should be made by the Agricultural Bank to bring its service close to the door of the farmer. It will have its Main Office in Karachi and a Provincial Office in Lahore and another in Dacca. These offices will be primarily for supervision and general administration. The loans will be made through the branches with representatives of these branches located in each tehsil or thana. These representatives should tour the villages to acquaint the farmers with the service of the bank, take applications, make necessary investigations and assist in the disbursement of loans. While many investigators are now working in the field, more will be needed to expand the scope of operations. A large task of training men for these positions faces the bank but already substantial progress has been made in organizing training activities. Servicing of small loans to farmers is expensive and as cooperative societies are formed loans to these cooperatives can be made which in turn would make the short term and medium term loans to farmers. Therefore as time goes on it would be expected that a larger proportion of the loans by the Agricultural Bank would be long term farm real estate loans and loans for agricultural marketing facilities with the cooperative societies picking up the responsibilities for short term and medium term financing.

6. The entire program of loans by the Agricultural Bank should be directed toward the development and improvement of agriculture in Pakistan. Loans should be for productive purposes and made on such a basis that payment would be expected when the loan is due. Since the Bank must protect its financial position if it is to finance farmers over the years and expand its operations, loans must be confined to farmers and organizations having a sound basis for credit. Farmers receiving loans therefore will be the larger farm operators and small and medium size farmers who own their land. The real estate mortgage would be the security of all long term loans for purchase and improvement of farm real estate. On short and medium term loans, now often secured by real estate mortgages, crop mortgages and mortgages on livestock and equipment may be preferable, and laws should be approved which would permit such mortgages. Loans to tenant farmers might be made with the surety of the landlord or another person. In the case of all loans the productivity of the farming enterprise should be the primary basis for the amount of the loan rather than the market value of the collateral security.

Agricultural Cooperative Credit Societies

The cooperative movement had its origin with legislation passed in 1904, providing for registration and supervision of local credit societies. The movement grew slowly at first but by 1930 there were several thousand small village credit societies in operation. The low prices of farm products in depression of the thirties gave the movement a set back and many societies failed. They were further weakened at partition when many persons who had been leaders in societies migrated.

The following table based upon figures of the Registrar of Cooperative Societies, shows the number of societies in East Pakistan, their membership and loans made for the year 1949-50 and 1957-58.

Agricultural Cooperative Credit Societies East Pakistan

| Year | Number of Societies | | Membership | | Loans made to individuals during year | |
|---------|---------------------|---------|---------------|---------|---------------------------------------|---------------|
| | Multi-Purpose | Primary | Multi-Purpose | Primary | Multi-Purpose | Primary |
| 1949-50 | 2570 | 22897 | 285,960 | 410,940 | Rs. 7,310,000 | Rs. 9,370,000 |
| 1957-58 | 3197 | 1989 | 529,827 | 48,226 | Rs. 15,630,000 | Rs. 2,160,000 |

During the past decade several thousand primary societies which were specialized credit societies have failed and have been liquidated. Of those in existence many are weak or inactive. Several new multipurpose societies have been organized but only a few of these are active. The societies have only a small volume of loans and at present are not an important source of credit for farmers.

A similar table for West Pakistan follows:

Agricultural Cooperative Credit Society West Pakistan

| Year | Number of Societies | | Membership | | Loans made to individuals during year | |
|---------|---------------------|-----------|------------|-----------|---------------------------------------|-----------------|
| | Limited | Unlimited | Limited | Unlimited | Limited | Unlimited |
| 1949-50 | 53 | 9003 | 20426 | 232271 | Rs. 23,832,000 | Rs. 43,666,000 |
| 1957-58 | 90 | 11154 | 32008 | 343268 | Rs. 141,820,000 | Rs. 173,870,000 |

In West Pakistan the societies show a growth in membership and in volume of loans but many of these are in weak financial position and not very active. Others have done quite well in providing credit to members in the villages served.

On the whole the cooperative movement among farmers in Pakistan has not been a success. Only a comparatively small proportion of the farmers have become members. Also, since the farmers generally are illiterate they have failed to understand the societies and their own responsibilities in making them succeed. Management often has been weak and has not managed the society in a businesslike manner. However cooperative societies if properly organized and managed can succeed and play a leading role in providing credit and other services to farmers. With this in mind the following recommendations are made for a cooperative program among farmers in Pakistan.

Multipurpose Cooperative Societies

It is recommended that over a period of years farmers multipurpose cooperative societies be organized at key points throughout the country. Such a society should provide farm supplies such as fertilizer, improved seeds, spray materials, tools and implements, and market the crops and other products produced on the farms of the members. In addition the society should make short term credit available to members to meet the seasonal needs in farming and medium term credit for purposes such as the purchase of livestock and equipment.

The multipurpose society is a logical approach to the solution of many problems of farming. The farmer needs certain supplies to increase production and his society can handle and sell them at a fair price. To purchase the supplies he may need credit and the society can give him a loan and advance it in supplies thus maintaining the control of loan proceeds to assure the use of funds for the purposes intended. The farmer needs assistance in marketing his crops and other farm products and the society would market these and try to obtain favourable prices. Also the loan can be deducted from the proceeds of the sale of crops, which should assure collection of the money due from members receiving loans. In organizing the multipurpose societies certain fundamental principals must be observed. These are outlined below:

1. Capable full time management is absolutely essential. A business that includes handling supplies, making loans and marketing farm products is not easy to manage. The manager must understand the practical problems of farmers, have a knowledge of accounting and business practices and be able to deal successfully with people and give technical advice to farmers. Since qualified persons are scarce, in most cases it will be necessary to train men for the positions as managers. Such training may require a year and should be a responsibility of the Registrar of Cooperatives. Also to obtain the full time services of a capable man it will be necessary to pay an adequate salary, a salary which will make the manager feel that he has a good position, one which he will strive to hold over a long period of years by good performance in his work.
2. Organization of the cooperative multipurpose societies should proceed slowly and each society must be established with a territory which will assure a sufficient volume of business for efficient operation. It is likely that a tehsil or thana would be a logical area and the ultimate goal would be to have one society in each such unit located at a central town which is a marketing center. However careful study must be made of the areas and no society should be organized unless there is a prospect for a volume of business which will provide sufficient earnings to employ a competent manager. Also if the society is to provide a favorable market for farm products of members it must be assured of a sufficient volume of these products to establish good outlets for quality products. In the past the grave error has been made of going out and organizing a large number of societies indiscriminately without giving the assistance necessary to assure success. Since good management is perhaps the most important factor in success of cooperatives, no multipurpose society should be organized until plans have been made to make a trained person available as a manager.

In organizing a society, meetings should be held in the villages to acquaint farmers with the plans and gain their support. It will be desirable to have a loan committee of three member in each village. This committee would approve each application for loans of members in the village before passing it on to the society for final approval and disbursement. Inspectors of the society also would make necessary investigations of the applicant and his farm. The various sections of the territory should be represented by a director on the board of directors of the society and for this purpose a division according Union Council area may be desirable.

3. The multipurpose society will require a warehouse and office and other physical facilities depending upon the crop handled. The Agricultural Bank of Pakistan and the Cooperative Banks should be in a position to make long term loans to enable the societies to construct or purchase these facilities. Loans for operations including funds for seasonal loans to farmer members will be required. In each society a separate loan department with separate accounting should be established for loans to farmers. Funds borrowed for loans to members would be held in this department and not tied up in the financing of marketing or purchase of supplies. Members must be encouraged to acquire stock in the society. Those obtaining loans should hold stock equal to at least ten percent of the loan and this amount if necessary might be withheld from the proceeds of the first loan obtained by the member and used for the purchase of stock.
4. The Registrar of Cooperative Societies in each of the Provinces is responsible for the organization and supervision of the societies and should take the leadership in training men for work as managers, inspectors and for other positions. The office of the Registrar must be adequately financed to do this job. Persons in this office should have career positions and be able to devote their efforts over the years to developing and improving cooperative societies for rural people. This office should be given funds to pay expenses of men while taking training courses. Also if funds can be made available it would be desirable for this office to pay the salary of the manager for the first two years of the operation of the society as added financial assistance in developing marketing and credit services for farmers.

Training of personnel for positions in cooperatives would be handled primarily by the Cooperative Training Institutes which have been established, one in each Province under the general supervision of the Registrar. These are now located near Lahore in West Pakistan and Dacca in East Pakistan but plans are under consideration for moving the Institutes to more distant points. In this connection it should be pointed out that it is desirable to have cooperative Institutes located near cities like Lahore and Dacca where it is possible to draw upon local professional and other talent for the faculty. In addition to a small full time faculty the services of other persons should be obtained on a part time basis. When the institutes are located in or near large centers it is possible to draw upon local professional and business men to teach courses and lecture in fields such as accounting, law, business management, banking and agriculture. This opportunity to use experienced men is essential to adequate training in management of cooperative societies.

The Registrar would organize, charter and supervise the multipurpose societies. In some cases this would involve reorganization or merger of existing societies, in other cases, organization of entirely new societies. In those cases where the society is financed by loans from the Agricultural Bank or cooperative banks, these institutions should also participate in the supervision of the society. The Registrar is responsible for regular audits of the society and these reports would be used by the Banks, supplemented by such examinations as they would wish to make.

5. The cooperative societies should be organized on the basis of limited liability of members. In former years most societies were organized as unlimited liability societies. When the societies got into financial difficulties because some members did not pay loans the loyal and thrifty members were called upon for payment. The unlimited liability principal has become very unpopular and it will be difficult to obtain the support of farmers for new societies unless these are organized on the basis of limited liability.

Village Cooperative Credit Societies

While many village cooperative credit societies failed, some are in existence and performing a useful service for the members. Essentially the village society is a means of pooling the savings of people in the village and making the funds available for loans to members. Members use savings to purchase stock in the society. Usually the affairs are handled by a secretary who keeps the records and advances and collects loans.

It is recommended that efforts be made to increase the number of effective village credit societies. They would specialize in credit to members and would supplement the multipurpose society. The societies should be organized as limited liability societies with a member's liability limited to his own loans, loans on which he is surety for others and his shares of capital stock. Secretaries will be part time employees and should be paid a small salary for their services.

Cooperative Banks

In Pakistan cooperative banks have been an important part of the cooperative structure. The primary societies in a given area united to form a central cooperative bank and purchased the stock of this bank. The central cooperative banks in turn in a province united to form a provincial or what may be referred to as an apex cooperative bank with the stock held by the central cooperative banks. The provincial banks make loans to the central banks which in turn make loans to their primary societies.

In East Pakistan there is one provincial cooperative bank and approximately 60 central cooperative banks which would be considered active. These banks on the whole have relatively small financial resources and some are in a very weak position.

In West Pakistan there are three provincial banks. Some central cooperative banks have become branches of a provincial bank but in part of the region the central cooperative banks function as independent institutions. The cooperative banks in West Pakistan have fairly large resources and are important in financing individuals as well as cooperative societies. Also individuals own stock in some cooperative banks. While many cooperative banks are strong financially and active, some are weak and have only a comparatively small volume of business.

The Credit Enquiry Commission has made a full and careful study of cooperative banks and as a result of this study has made several recommendations for reorganization of these banks and for improving their operations. It recommends that solvent central cooperative banks be merged with the apex cooperative banks and operate as branches of the apex banks. The present apex banks in West Pakistan would continue and an additional apex bank would be organized in East Pakistan so that there would be two apex banks in that province. Individuals would be removed from membership in the cooperative banks and in time all lending would be restricted to loans to cooperative societies. Also the reorganized apex banks would be declared scheduled banks and placed under the control of the State Bank of Pakistan instead of being under control of the Registrar of Cooperatives. Furthermore, it is recommended that a Rural and Cooperative Credit Committee with the Governor of the State Bank of Pakistan as chairman be organized to serve in a consulting and coordinating capacity. Other members of the committee would be the Registrars of Cooperatives in the two provinces, the chief executives

of apex cooperative banks, the Agricultural Bank and the Agricultural Development Finance Corporation and the Cooperative and Marketing Advisor of the Government of Pakistan.

Adequate and sound financing of farmers cooperative societies is vital to the development and improvement of cooperative societies and the Credit Enquiry Commission had this in mind in making its recommendations. However, objections have been voiced of these recommendations, most of these objections apparently coming from officials of the central cooperative banks, who prefer that the banks maintain their present status, and from leaders of the cooperative movement who are fearful of control by the State Bank of Pakistan.

In view of the objections which have been made to the recommendations for reorganization of cooperative banks this problem will undoubtedly receive considerable attention. As a possible and partial alternative to these recommendations the following suggestions are made for consideration in dealing with this problem.

1. Careful examination of all central cooperative banks would be made by a team of examiners representing the State Bank of Pakistan and the Registrar of Cooperatives. Banks found to be insolvent should be placed in liquidation.
2. Solvent central cooperative banks would be given the opportunity of merging with the apex cooperative bank in their territory and thereafter operating as branches, or of reorganizing as commercial banks in which case the capital stock held by primary societies would be retired and paid for at a fair market value. There are some central cooperative banks that have individuals as holders of part of the stock and make a substantial part of their loans to individuals. Since they also accept deposits from the public, for all practical purposes they function as a commercial bank. In reorganizing as a commercial bank they would come under the supervision of the State Bank of Pakistan.
3. The apex cooperative banks would function exclusively for the purpose of financing cooperative societies. The stock would be held by the primary societies and not by individuals and loans by the apex banks would be restricted to loans to the societies. The banks would retain their authority to accept deposits from the public but would be required to hold a portion of their assets in government bonds to provide the liquidity necessary for meeting demands of the depositors.

4. The apex cooperative banks would operate through branch offices. The effect of the reorganization would be to provide a small number of apex banks with substantial resources to finance cooperative societies. Operating through branches should increase efficiency and standardize lending procedures. Each branch would have a manager and a local advisory board of men selected by the apex bank from nominations made by the societies in the area served by the branch.
5. Supervision and audit of the apex cooperative banks would be the responsibility of the Registrar of Cooperatives in the province where the bank is located. However the State Bank of Pakistan should have one man as a director on the board of directors of each apex bank. Also apex banks would be eligible for loans from the State Bank and if a loan is applied for or in force the State Bank should have the authority to make such examinations of the activities of the apex bank as it may deem necessary. Leaving the supervision of cooperative banks as a responsibility of the Registrar has the advantage of maintaining supervision in the hands of an office concerned with the problems of cooperatives and interested in the development and improvement of cooperative societies. At the same time by being represented on the board, the State Bank of Pakistan would keep informed on activities and have an opportunity to influence policy and keep the activities in line with the general credit policies of the government.
6. While stock of the apex cooperative banks would be held by the primary societies the Government of Pakistan and the Provincial Governments should also be authorized to subscribe for stock. This is one means of placing the financial support of the government back of the cooperative institutions as an aid to farmers.

Government Credit for Farmers

The Provincial Governments through their Revenue Departments have made loans to farmers over a long period of years. In West Pakistan these loans are known as taccavi loans and in East Pakistan as agricultural loans. The loans started as a means of assisting persons in distress due to floods and other disasters but later were expanded to finance agricultural improvements including the construction of wells, irrigation and drainage, and for other agricultural purposes. The loans are handled by the Revenue Departments and become a statutory charge against the land without a mortgage. In some cases a surety's signature is required to obtain a loan. Interest is charged at a rates

ranging usually from $4\frac{1}{4}$ to $6\frac{1}{2}$ percent. The term of the loan varies with the purpose, with loans made for terms up to 10 years for wells and other land improvements. Many new settlers on land have been helped by this source of credit. Collections seem to have been only moderately satisfactory.

It would seem desirable for this source of credit through the Revenue Departments to be continued particularly to help farmers in distress due to floods or other disasters. However as the Agricultural Bank expands its activities and farmers cooperative societies become available the Provincial Governments could gradually withdraw from this type of lending to farmers, except for the loans to meet emergency situations.

A Proposal for Supervised Credit

In the preceding discussion, plans for increasing lending to farmers by an Agricultural Bank and by farmers cooperative societies have been considered. But it will take a long time before the bank can reach out and finance a large number of farmers and they will be the farmers with reasonably large resources. Similarly it will take several years before many strong multipurpose cooperative societies will be functioning to help farmers needing credit. Meanwhile, Pakistan is faced with the serious problem of greatly increasing agricultural production for the purpose of becoming self-sufficient in food. This calls for increased production on the small farms operated by tenants and sharecroppers and owners of small tracts. It is in the financing of this group that supervised credit would be effective in improving farming practices increasing production and raising incomes and standards of living of the farm families. Some type of organization definitely is needed which would have as its sole primary objective the increasing of income of farmers.

Supervised credit is a term used for programs that combine credit and technical guidance for low income farmers as a means of improving the organization and operation of their farms. The local loan supervisor has the responsibility for closing and collecting the loans and aiding the farmers in developing farm plans and in adopting improved techniques in farming. The loan is specifically set up to allocate funds to specific improvements and practices to be adopted by the farmer. This combination of credit and technical guidance has proven to be an effective means of increasing production on farms in many countries.

The question arises as to what type of organization is needed to carry on a broad program of supervised credit. One approach would be to set up in the Central Government directly under the Minister of Food and Agriculture an agency with a large revolving fund authorized to make loans to farmers who do not have other sources of credit available,

and to provide men as loan supervisors capable of giving technical assistance to borrowers. Such an agency would have as its objective the raising of incomes of farmers but its functions would be limited to making loans and providing technical assistance.

The problem of raising incomes of the small farmers however is broader than just credit and technical assistance. Supplies are needed for increasing production, including fertilizer, improved seeds, spray equipment and materials, tools, general farm equipment and other items. The farmer needs help often in marketing his crops to good advantage. Therefore the organization which will get the greatest results in increasing production on small farms, is one with authority to handle supplies and assist in marketing in addition to providing supervised credit. What is really required is a Central Government Corporation with adequate capital and with flexibility in operations to effectively provide these services for small farmers and other farmers needing this assistance. The following is a general outline of a type of organization which might be used for this purpose and a brief discussion of how it would function. The organization would be a Central Government Corporation to operate as an independent authority in the government with its board of directors reporting to the Minister of Food and Agriculture.

Name - Farmers Service Corporation.

Purpose - A corporation organized with the objective of improving the income of those farmers having only modest resources, particularly small farmers including tenants and sharecroppers. To accomplish this objective the corporation is authorized to purchase, handle and sell supplies, tools and equipment used on farms, to market crops, livestock and other farm products, provide loans to farmers unable to obtain satisfactory credit from other sources, give technical guidance to farmers and engage in other functions essential to meeting its objective.

Capital Stock - The authorized capital stock shall be Rs.200,000,000 divided into 200,000 shares of Rs.1,000. This stock shall be subscribed and paid by, and only by, the Government of Pakistan in such amounts as may be necessary to provide funds for the activities of the corporation.

Board of Directors - The governing body shall be a board of directors of five persons appointed by the Minister of Food and Agriculture who shall name one of these persons as Chairman and Managing Director. The board shall establish the policies of the corporation and the management of

operations shall be the responsibility of the Managing Director. The board shall serve full time and the Managing Director may delegate to the other members specific activities for which they will assume responsibility.

Headquarters - The headquarters shall be established and maintained in Karachi.

Branches - The provinces of West Pakistan and East Pakistan shall be divided into districts and a main branch office established in each district with an assistant manager in charge. Within each district such subbranches may be established as may be needed to provide service to farmers with a loan supervisor in charge.

Primary functions

1. Providing supplies - The Corporation will purchase the supplies which are essential in improving operations on farms such as seeds, fertilizer, spray materials, tools, equipment, etc. and sell these supplies to those farmers which it is assisting. Sales will be limited in amounts to the actual requirements of the farmer for use on his farm. Prices charged farmers will be the cost of the supplies plus a margin for storage and other handling expenses and ordinarily would approximate prices prevailing for similar supplies in the local markets. To properly store and handle the supplies the corporation will construct, purchase or lease warehouse facilities. In time it may find it necessary to provide a fairly large warehouse in the territory of each tehsil or thana and such additional storage in villages as may be necessary in delivery to the farmers. Loan supervisors will assume responsibility for the farmer taking delivery of the supplies and supervise their use.

Complete accounting of all supplies will be necessary including proper inventory control. Accurate records must be kept of sales and deliveries to farmers. Loans to farmers for purchase of supplies ordinarily will be disbursed by delivery of the supplies and will not be paid out in cash.

2. Marketing of crops and other farm products - The Farmers Service Corporation will engage in marketing only in areas where it is considered necessary to provide farmers with improved outlets for their products. Successful marketing of farm products requires a high degree of technical skill

and ability in business management. Not all the loan supervisors would have the ability to market products to advantage and generally would not be required to engage in this activity. Where local markets are reasonably satisfactory, farmers receiving loans would sell their crops and other farm products in these markets.

Where improvement in marketing is necessary and where marketing is a comparatively simple operation such as the assembly and purchase of staples like wheat and rice, the warehouse facilities used for supplies might also be used to give farmers a better outlet for their farm products. On the other hand, where marketing is complicated involving processing such as ginning of cotton, separate facilities under specialized management would be organized and constructed. Since these facilities require a relatively large amount of capital they would be provided only where present facilities are inadequate and the assistance of the Corporation is required to give farmers a satisfactory market. Also when these facilities are provided there must be assurance of a sufficient volume of business for efficient operation.

Prices paid farmers for farm products would reflect demand and supply in the market. The farmer would be paid at time of delivery or if storage is available, and the farmers choose to store, they would pay a fee for storage and get the price prevailing when the crop moves out of storage for sale. Since the Corporation would be competing in the market place it would find it necessary to pay going market prices. It should be the policy of the Corporation to pay the farmers the highest price possible, but prices paid should be at levels which will enable it to operate the marketing program without loss over a period of time. To the extent that the Corporation can improve prices received by farmers for their crops it will create incentives for them to increase production on their farms.

3. Loans to farmers

- (a) Eligible borrowers - Loans shall be made only to persons actually engaged in the operation of farms, either as an owner or tenant, and who participate in both the labor and management involved in the production of crops or livestock. Such persons shall be eligible for loans only if they are unable to obtain loans on reasonable terms from other established agencies.

- (b) Approval of loans - All applications for loans shall have the approval of the local loan supervisor who shall assist the applicant in making a farm plan and analyze, along with the farmer, the intended use of loan funds and the probable effect of the loan on farm earnings. The analysis shall be summarized in an application form which shall be signed by the applicant and the loan supervisor. On applications of Rs.500/- or less the approval of the loan supervisor shall be final. Applications of over Rs.500/- also shall have the approval of the manager of the Branch Office of the Corporation, or his representative..
- (c) Purpose of Loans - Loans may be made for any and all agricultural purposes, but for such purposes only.
- (d) Period of loans - Loans may be made for any period not to exceed 20 years. Preference shall be given first, to loans of 18 months or less and second, to loans over 18 months but not exceeding 5 years. Loans for periods of over 5 years shall be made only in exceptional cases where it is determined that such loans are needed for the improvement or establishment of farms.
- (e) Maximum amount of loans - No loan shall be made to any one borrower for an amount exceeding Rs.25,000. It is the intent to serve primarily the small producer and therefore preference shall be given to loans in amount of Rs.1,000/- or less. As defined here the amount of loan is the total of all advances to a borrower outstanding at any one time.
- (f) Time of loan payments - Loan contracts shall be drawn to provide for payment at the time when the borrower will expect to receive income from products produced. Seasonal short term loans will normally call for payment in full at a time shortly following the harvest. Loans exceeding a term of one year will normally be drawn calling for payment in annual or semi-annual instalments in amounts sufficient to liquidate the loan in full during the full loan period.

- (g) Loan service charges - When a farmer receives his first loan he shall pay into the reserve fund of the Corporation an amount equal to 5 percent of the amount of the loan and which shall be deducted from the principal amount advanced. Subsequently, if the borrower obtains loans larger in amount he shall pay into the reserve fund from the proceeds of the loans such amounts as may be required to make his total payment into the reserve fund equal to five percent of his maximum loan. Payments into the reserve fund shall become the property of the Corporation to be maintained in the accounts as a reserve for losses on loans.

For services provided by the Corporation, including technical assistance from the loan supervisor, the borrower shall pay a fee equivalent to five percent per annum on the principal of the loan. This fee shall be included with payments of principal and shall be applicable and payable only for such time as the principal is outstanding.

- (h) Security for loans - The primary security for loans shall be the productivity of the farm as operated by the farmer-borrower. In all cases there shall be prospects of sufficient income from the farm enterprise to make payments on the loan as they become due. The borrower shall sign an agreement that he will notify the loan supervisor of his intentions to market his crops and other products and he shall apply as payments on the loan such amounts as he and the loan supervisor shall agree should be applied. If the Corporation has marketing facilities of its own available in the locality it may require an agreement by the borrower to deliver to the Corporation the entire amount of the crop to be marketed.

The borrower will sign a note (bond) agreeing to pay the loan under terms arranged. If the applicant for a loan is the owner of a farm no surety by another person ordinarily will be required. If the applicant is a tenant the surety of the owner of the land operated by the tenant ordinarily will be required.

In the case of loans made for the purchase of livestock and equipment the borrower shall give a mortgage on these items. All long term loans, 5 years or more, for the improvement of farms or for other purposes, shall be secured by a first mortgage on the farm of the applicant.

- (i) Loan servicing and supervision - Disbursement of the loan proceeds will be the responsibility of the local loan supervisor who shall determine that the proceeds are used by the borrower for purposes intended. Loans for the purchase of supplies handled by the Corporation will be advanced by the farmer taking delivery of the supplies. For items not handled by the Corporation the proceeds may be paid to the borrower in cash with the loan supervisor taking steps to see that the funds are used for the purposes agreed upon.

The loan program of the Corporation is one of combining with credit, technical guidance for borrowers to assist them in improving farm operations and increasing earnings. At least once each year the loan supervisor shall confer with the borrower for the purpose of drawing up a cropping plan and making plans for general improvement of the farm business. These plans shall become a part of the credit program and loans will be geared to the plans for the purpose of making the improvements agreed upon. The loan supervisor will visit the farm of the borrower or meet with groups of borrowers to give instructions on improved techniques in crop and livestock enterprises. The local loan supervisor will be responsible for obtaining payments of loans as they become due. An important part of the technical guidance will be to develop an attitude among borrowers to seriously recognize their financial obligations and to make plans to pay loans as they become due. Borrowers must apply proceeds from the sale of crops and other products on payments due on loans and should do so voluntarily. Failure to so apply proceeds shall be cause for suspension of assistance from the Corporation.

Training local loan supervisors

The extent of operations and the effectiveness of the program of the Farmers Service Corporation will depend on the availability of men to serve as local loan supervisors and in turn their ability to give technical guidance to farmers. The Corporation will find it necessary to engage in a program for training loan supervisors.

A man selected for the position of local loan supervisor must have a farm background and understand farming practices. He should enjoy working with farm people and living in a rural village. Furthermore, he must have at least the equivalent of a grade school education and with

proper training be able to keep simple accounts and maintain other records pertaining to the loan program. He must be willing to labor in the fields with farmers and demonstrate practices which he will be advocating for improvement in farming.

The branch manager of the Corporation will be responsible for employing the local loan supervisors in their districts and for organizing training courses.

The first training course for loan supervisors should be set up for a period of about three months. In this course the following subjects should be stressed.

1. Maintaining records of loans - This includes filing of loan documents and keeping of accurate accounts on each loan of funds disbursed and funds collected.
2. Making farm plans - Instructions must be given in the analysis of a farm business, the layout of fields, selection of crops, estimating earnings and budgeting advances on loans.
3. Teaching improved farm practices - Demonstrations should be given on practices to be emphasized in improving agriculture, use of fertilizer, improved seeds, better cultural practices, etc.
4. Relationships with rural people - Loan supervisors must know how to deal with rural people and gain their confidence. Special training should be offered on methods to be followed in working with rural people and influencing them to change farming practices and developing in them a desire to improve their economic position.

As the program develops and it becomes apparent what type of problems are arising, special in-service training must be organized to train loan supervisors to meet these special situations. It is likely that special training in the handling of farm supplies will be needed.

Long Run Position of the Farmers Service Corporation

The problem of improving agriculture and increasing the food supply will be a continuing problem for Pakistan, particularly if the growth of population continues at the present rate. For this reason the Farmers Service Corporation should plan to operate over a long period of years. However, as farming is improved and small farmers strengthen their financial position as a result of the supervised credit program, many should then be able to obtain their credit from sources such as the Agricultural Bank or Cooperative Societies. In this case the credit activities in an area might be reduced to include only a relatively small number of farmers.

In areas where multipurpose cooperative societies become active the Corporation could turn over to these societies the handling of supplies and probably marketing activities. Farmers whose financial position has been improved also should be able to obtain loans from the cooperative society. Farmers who are ineligible for loans from the society but eligible for supervised credit from the Corporation could become members of the society and purchase supplies from it. In other words, in an area where a multipurpose cooperative society becomes active the Corporation would plan to turn over to this society as much of its program as possible. In this manner the Government's program may in time be materially reduced in scope. Provision could be made for the Corporation to sell warehouses and other physical facilities to cooperative societies where they are able to function effectively. Payment for the facilities would be made over a period of several years.

It is likely that objections may be raised to a program such as that of the Farmers Service Corporation on the grounds that it will have an inflationary effect in the economy. The persons raising the objections would say that any Corporation paying out several million rupees would contribute to an increase in prices of goods. However, the program of the Corporation is one of increasing production of agricultural products and the net effect should be to set in motion forces which would operate to stabilize and not raise prices. In Pakistan a large share of the total value of goods consumed is in food and other agricultural products. Therefore, an increase in the supply of agricultural products would have a stabilizing effect on the general level of prices.

Summary

1. The economic development of Pakistan is dependent on the improvement of agriculture, its primary industry. Farms generally are small, incomes of farmers low and poverty prevails in most rural areas. There are opportunities for greatly increasing agricultural production by the adoption of improved farming practices and credit and technical guidance for farmers are essential for these improvements.
2. Pakistan has no well-organized credit system to assist farmers. Such credit as is available to rural people is provided to a large extent by individuals, including friends, relatives, landlords and traders. Improved credit facilities are needed and should be established.
3. Two Central Government sponsored agricultural credit agencies are operating but have financed only a comparatively small number of farmers. These agencies, the Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan should be merged

as soon as possible to operate as one institution under the Agricultural Bank Act of 1957. Adequate capital should be provided and steps taken to bring the service close to the farmers. The reorganized Agricultural Bank should confine its loans to farmers who have a sound basis for credit and, in general, will finance the larger farmers as well as the smaller farmers who are in fairly strong financial position, and the cooperative societies.

4. Many small agricultural cooperative credit societies have been organized over the years but, in general, the cooperative movement has not been a success. A large proportion of the societies have failed and many of those still in operation are weak. However, if properly organized and efficiently managed, cooperative societies can be of great help in providing credit and other services for farmers. Over a period of years farmers multipurpose societies should be organized at key points in the country to handle farm supplies, market farm products and make short term and medium term loans to farmer-members. Capable managers will be necessary and training programs by the Registrars of Cooperatives should be expanded and improved to train men for positions as managers of the societies.

5. Central Cooperative Banks and the Provincial Cooperative Banks are important institutions in financing cooperative societies. It seems desirable to reorganize the cooperative banks with the result that there would be two apex cooperative banks in East Pakistan and three apex cooperative banks in West Pakistan. The Central Cooperative Banks would be reorganized into branches of the apex cooperative bank in their territory. Supervision of the apex cooperative banks would remain with the Registrars of Cooperatives.

6. Pakistan is faced with the difficult problem of greatly increasing agricultural production to become self-sufficient in food. This will require a substantial increase in production on small farms operated by tenants and sharecroppers and by the owners of small tracts. Supervised credit, that is credit combined with technical guidance, would be an effective means for increasing production on these farms. In organizing such a program it will be desirable to establish an independent government corporation, with adequate capital under the Minister of Food and Agriculture, named the Farmers Service Corporation, with authority to make loans to farmers who do not have credit from established agencies, give technical guidance to borrowers, provide farm supplies, and where necessary engage in marketing of farm products. Men would be trained to serve as local loan supervisors and would work closely with borrowers in improving farm operations. When an effective multipurpose cooperative society is established and functioning in any particular area the Farmers Service Corporation would plan to turn its activities over to the society as far as possible.